

# **Don't Roll Back the Telecom Act. Enforce It.**

Testimony of  
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Senate Committee on Commerce

S. 877  
Broadband Internet Regulatory Relief Act

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Mr. Chairman, members of the Committee, I appreciate the opportunity to share my views on the bill under consideration today.

My name is James K. Glassman, and I am a resident fellow at the American Enterprise Institute. I am not an expert in the technical aspects of telecommunications. Instead, my field of interest is intersection among technology, finance and public policy, including such issues as Internet privacy, high-tech antitrust, Web taxation, and, of course, dissemination of broadband technology. It is to examine such issues that, with some colleagues, I launched a website in February called [TechCentralStation.com](http://TechCentralStation.com)

My background is as a journalist. Many of you will remember that I was editor of Roll Call from 1988 to 1993. For six years after that, I was a columnist on financial and economic issues for the Washington Post. It is no secret that I have spent my 30 years as an analyst and journalist advocating free-market solutions to vexing public-policy problems.

My aversion to unnecessary government regulation is exceeded only by enthusiasm for the New Economy – an economy made possible by new technology delivered in an atmosphere of healthy competition, with minimal political involvement.

**Our country and our economy have come a long way since Ronald Reagan was credited with saying: “If it moves, we tax it. If it’s successful, we regulate it. And if it fails, we subsidize it.”**

**But the journey is not over. And this new economy of which we are so justifiably proud is facing a threat.**

**I’m not talking about the precipitous drop in NASDAQ prices this spring or the shakeout in dot-com companies. Those are just symptoms.**

**The threat that disturbs me is the recent trend for some companies to use the power of government to thwart competition – even if that means increasing government's involvement with the business of technology.**

**That is what’s going on right now in the telecommunications industry. The industry that’s the delivery vehicle for the Internet --- the enabling industry of the new economy.**

**The grandly named Broadband Internet Relief Act is pretty clearly a device for rolling back the competitive provisions of the Telecom Act of 1996. Instead of rolling back the Telecom Act, we need to enforce it.**

**That Act was a remarkable accomplishment -- a solid initiative, a gesture of statesmanship and compromise by government, to get itself out of a vital national industry. It was designed to replace regulated monopoly in the local telecom services industry with vigorous competition. And vigorous competition is the only guarantee for the rapid deployment of advanced technology at the lowest possible prices to all areas of the country.**

**The best thing I can say about the Telecom Act is that it’s working. It took a while, but it is working.**

**A new class of competitive local exchange carriers has been created, known as the CLECs. And even though the incumbent regional monopolies still control 90 percent of the total market and as much as 98 percent of the voice market, the new competition is turning up the heat. These CLECs, some 300 of them, have a market value of more than \$100 billion. They did not even exist before the Act.**

**The presence of competition is finally having the classic economic effect that Congress intended. We’re seeing an upsurge in deployment of broadband Internet services, by the incumbent companies as well as their new competitors. The Yankee Group predicts that the number of homes subscribing to broadband services will rise from 1.4 million this year to 16.5 million in 2004, an incredible pace.**

The ILECs are dusting off the DSL technology they have had available for 10 years and installing it in the marketplace. Why? Clearly, because of competition. Look at SBC Communications. A June 12 article in *Fortune*, headlined, "Why the Biggest Baby Bell Is Wild About Broadband," discussed SBC's Project Pronto, a plan to install 1 million broadband connections by the end of this year and 2 million by the end of 2001 – from just 139,000 on Jan. 1, 2000. "SBC believes it can reach 80 percent of its customers with DSL," said the article.

SBC's CEO said earlier this month that his aim was "to completely transform SBC and its companies into a data-centric business." And – understand – these claims were made, and well received by Wall Street, without the expectation that the legislation under consideration here would become law.

For as long as anybody can remember, the local services market was the equivalent of a no-substitutions box lunch served up by the incumbent telephone companies. But now that market is beginning to seem more like the food court at the mall. Not only a choice in menu, but a growing choice in providers.

The job of public policy right now is to see that everybody in this country has access to this smorgasbord, not to shut it down. But make no mistake about it, passage of S. 877 would close the food court before most Americans get a chance to fill their tray. This bill would tell America that the promise Congress made in 1996 has been rescinded --- just as we were beginning to feel the tangible benefits.

Customers and investors won't stand for that. Competition in the local services market is crucial to delivering advanced services. And advanced services are crucial to the growth of the new economy. We can't afford to drop competition in the local telecom market as though it were last year's fad.

But S. 877 would come dangerously close to doing just that. Its basic provisions amount to a recipe for concentrating market power back in the hands of the ILECs. The danger of re-monopolizing the market can't be overlooked. And if the agreed-upon requirements for local service competition were dropped, it would open the possibility for the ILECs to make a back-door entry into the long distance market, where they could leverage their monopoly position in local service to compromise the surging competition in long distance.

**This bill would basically excuse the incumbent monopolies from their obligation to provide new competitors with interconnection to the ILEC networks at reasonable prices under reasonable conditions. That obligation and the checklist that goes with it are central to the success of the Telecom Act. Take away these competitive requirements and you take away the ILECs' incentive to deploy new technology.**

**Of course, well-intentioned advocates of S. 877 would say just the opposite. They see this bill as providing an incentive for the big incumbent companies to deploy broadband technology faster by freeing them from burdensome regulatory requirements. This is nonsense.**

**Mr. Chairman, I stand second to no one in my contempt for burdensome regulatory requirements. But I also recognize that the local telephone monopoly was established and enforced over the past century by government. And no such monopoly will open its market to competition without a firm push. The competitive requirements of the Telecom Act provide that push.**

**Those requirements are not holding back the deployment of new technology by the ILECs. To the contrary. The incumbents are deploying the technology now and will continue to deploy it for two fundamental reasons: One, the prod of competition. And, two, new technology like frame relay, packet switching and other applications generate billions of dollars a year in productivity improvements.**

**Just look at SBC's Project Pronto. It's a \$7 billion investment in broadband. Advocates of S. 877 would say that SBC needs freedom from competitive requirements to finance the cost of this investment. But the view on Wall Street is that SBC's ambitious \$7 billion investment will bring the the company \$9 billion in productivity improvements.**

**And on the subject of technology, the proposed bill just about assures that any new competitor who did get access to the incumbent's network would be limited to sharing old-fashioned circuit-switched technology. Anything newer than that would be excluded under the heading of "advanced services."**

**If a new competitor wants to offer the advanced services that we all want, that competitor would have to build its own network, which is a prohibitive cost for most new competitors. This is an approach that was specifically rejected by Congress when the Telecom Act was drafted. It would be nothing more than a roadblock to competition, and our goal should be tearing down roadblocks, not installing them.**

Let's review some history. It was not easy to get the Telecom Act passed, but all parties to the act agreed to its provisions. Then, the lawsuits from the local telco monopolies began. Finally, after much litigation and footdragging, a local Bell was certified as having completed its interconnection requirements in a single state, New York, where I live. I can tell you that the competition there – for local service, broadband, long distance, you name it – is hot and heavy. DSL rates are falling sharply. Now, Texas has been approved. We are on our way. But it is at just this time that the local incumbents want to roll back, to gut, the Telecom Act. Why? Maybe they don't like the heat of competition. I can't blame them. Competition is no fun for longtime monopolies, or for any company, for that matter. But it is wonderful for consumers. They are the winners.

The legislation under consideration would have another effect: It would increase uncertainty in the markets. Investors need assurance that the rules of the game will stay the same. When they commit billions of dollars, they need to know that Congress won't change the competitive climate by passing bills that favor one group of companies over another. Why was investment put on hold for about three years prior to the passage of the Telecom Act of 1996? Because few investors wanted to put their money down if they did not know what game they were playing. Now, they know. Don't change the rules of the game in the middle, or the investors will find another game – perhaps in another part of the world. And American consumers will suffer.

Let me also comment on one other specific provision of S. 877, the issue of reciprocal compensation.

Like so many other telecom issues, reciprocal compensation is complicated in the details, but simple in its fundamentals. It says that one communications carrier should be a fairly compensated when it handles incoming calls from another communications company.

But now, this proposed bill would deny reciprocal compensation to the CLECs who handle the calls coming in to Internet Service Providers from ILEC customers. Mr. Chairman, this provision is the public policy equivalent of spot zoning. It is public policy targeted for the special interests of the few, instead of the general good of the many.

In effect, this accommodation of the ILECs' wishes would drive up the cost of Internet access for millions of users. That's not a legacy that this or any other Congress wants to pass along to the American people.

In summary, Mr. Chairman, I would urge the Senate to stay the course with the Telecom Act of 1996. It needs to be enforced, not destroyed. We're seeing progress now. We'll see much more in the years

ahead. Real competition in local services will speed the arrival of 21<sup>st</sup> Century technology to American homes.

And it will create major growth opportunities for companies in the telecom market, including the very same companies who are now looking to government to throw competition into reverse.

Thank you very much.

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